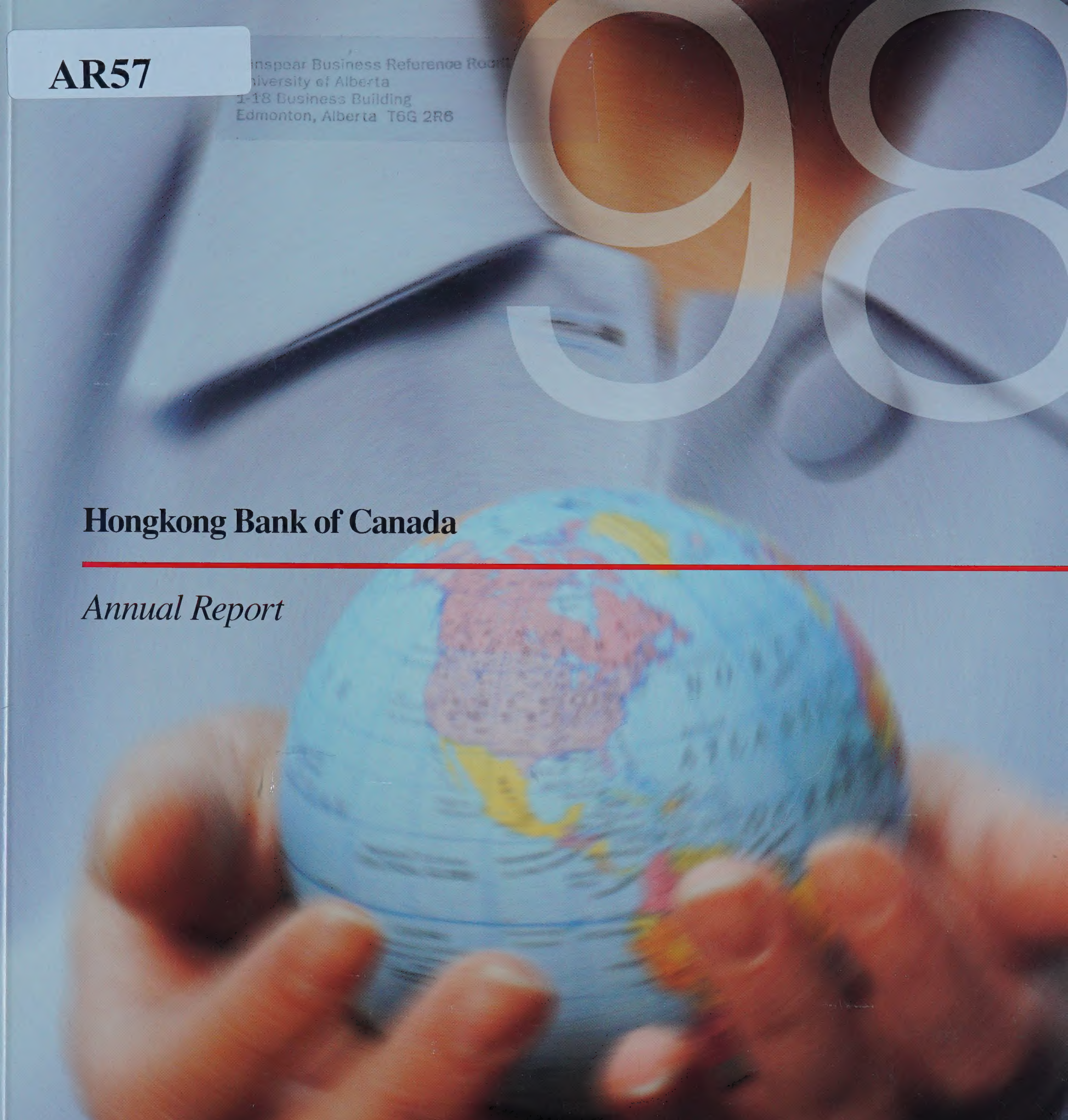

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Hongkong Bank of Canada

Annual Report

HSBC

GLOBAL CONNECTIONS

Hongkong Bank of Canada has been part of the Canadian financial community for almost 20 years. During that time, we have become known for our complete range of financial products and services, and for the global connections we provide as a member of the HSBC Group, one of the world's largest banking and financial services organizations.

In June 1999, our name will become HSBC Bank Canada, subject to regulatory approval. Like other HSBC Group members, we will be adopting 'HSBC' as our new marketing name. Our new name represents an exciting move forward for the Bank and for our customers, affirming the strength of the HSBC Group worldwide and placing the capabilities of a global banking group in communities across Canada.

Contents

Financial Summary

Annual Highlights *(in millions of dollars)*

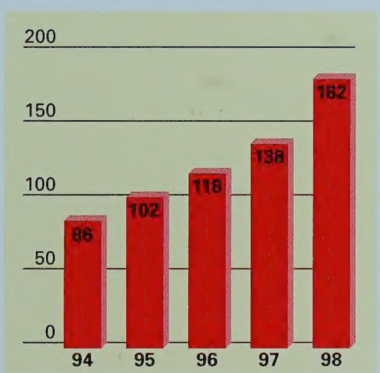
	Fourteen months ended December 31, 1998	Years ended October 31 1997	1996	1995	1994
Earnings Information					
Income before tax	**$ 224**	$ 221	$ 187	$ 172	$ 136
Net income	**182**	138	118	102	86
Net interest and other income[1]	**938**	733	640	548	477
Provision for credit losses	**90**	38	53	63	62
Non-interest expenses	**624**	474	400	313	279
Financial Ratios (%)					
Return on average common equity[2]	**20.98%**	20.19%	19.49%	17.78%	16.69%
Return on average total assets[2]	**0.63**	0.61	0.59	0.60	0.59
Non-interest expenses to income ratio	**66.52**	64.67	62.50	57.12	58.46
Net non-performing loans as a percentage of loans and acceptances[3]	**(0.67)**	(0.39)	(0.24)	0.28	0.98

Financial Position

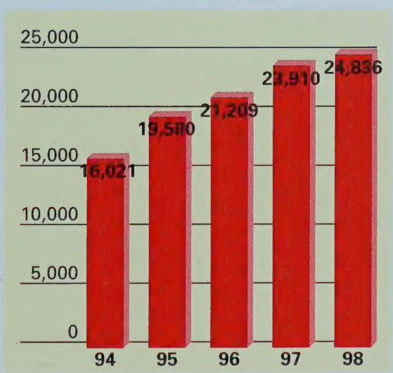
	As at December 31, 1998	As at October 31 1997	1996	1995	1994
Total assets	**$ 24,836**	$ 23,910	$ 21,209	$ 19,580	$ 16,021
Total loans	**17,459**	16,454	15,011	13,657	11,914
Commercial loans	**9,934**	7,940	7,139	6,355	5,921
Residential mortgage loans	**6,057**	6,876	6,453	5,841	4,742
Total deposits	**20,550**	20,115	18,353	17,207	14,244
Personal deposits	**10,213**	9,922	9,789	9,377	8,051
Debentures	**620**	549	583	463	352
Shareholder's equity	**817**	671	623	577	526
Funds under administration[4]	**9,988**	7,874	6,310	3,927	325
Risk-Based Capital Ratios (%)					
Tier 1 capital	**5.4%**	4.7%	5.1%	5.4%	5.4%
Total capital	**10.0**	8.9	9.6	9.4	8.7

Notes:
1. *This represents the total of net interest income and other income before deduction for credit losses*
2. *These 1998 ratios for the fourteen months ended December 31, 1998 have been annualized*
3. *Net of specific and general allowance*
4. *Includes the Bank's mutual funds under management*

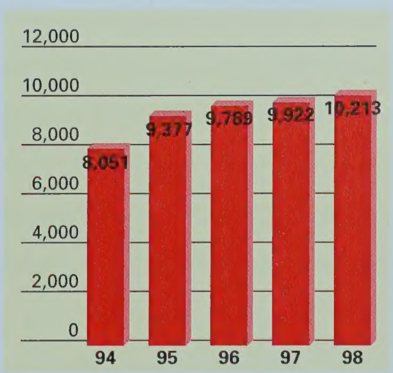
Net Income
(in millions of dollars)



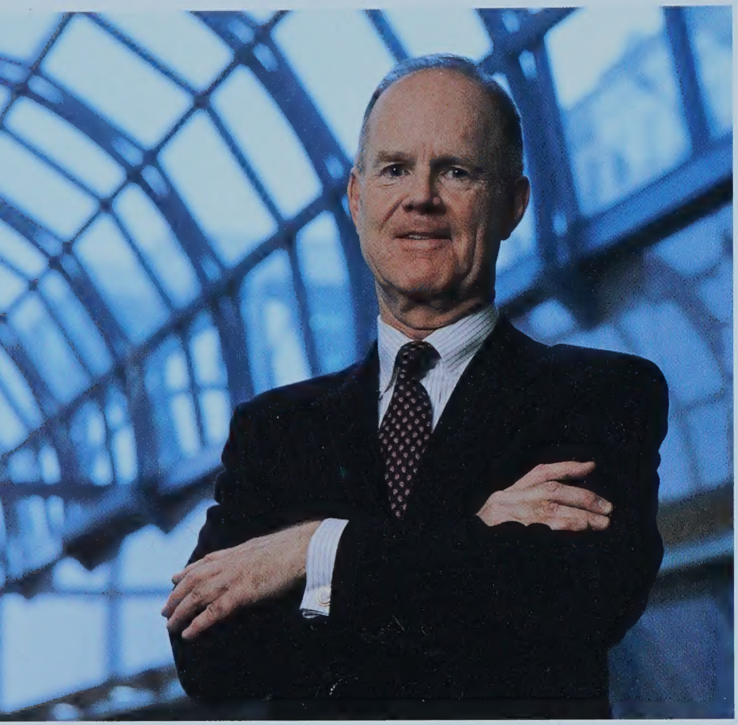
Total Assets
(in millions of dollars)



Personal Deposits
(in millions of dollars)



Chairman's Message



James H. Cleave, Chairman of the Board of Directors

Excellent performance in a challenging business environment.

This past year was one filled with challenges for Canadian bankers. The continuing economic downturn in southeast Asia and the sluggish Japanese economy combined to sharply reduce the demand for and the price of commodities. The impact was felt first in British Columbia and subsequently in the prairies. After record prices and growth, the sudden reversal of fortunes caused a sharp drop in farm incomes and significant layoffs in the forestry and mining sectors. Low oil prices were offset in part by the strength of gas markets but overall, the commodity-based economies of western Canada slowed the pace of expansion. Those price declines, combined with a worldwide flight to safety on the part of investors, caused the US dollar to gain significantly against every currency. As the Canadian dollar weakened, the Bank of Canada raised short-term interest rates to forestall further declines and provide a cooling off period.

Atlantic Canada exhibited varied growth rates from nation-leading Newfoundland to Prince Edward Island, which recorded minor growth. In both Nova Scotia and New Brunswick, energy projects (the building of the Sable Island gas pipelines to eastern Canada and the New England states) provided the base for economic expansion. In Quebec, and even more so in Ontario, the strong performance in their major market, the United States, provided the underpinning for sustained growth. Business in Quebec, which had suffered greatly in the ice storms of January, surged in the summer as the storm damage was repaired, exports boomed and Hydro Quebec, among others, made significant new investments. Ontario continued to experience a substantial wave of investment in new plants and equipment which raised income to record levels and sharply increased employment.

All of this took place against the background of substantial gyrations in both equity and bond markets. Investors' flight to perceived safety in long-term US Treasuries precipitated a credit crunch. In the early fall, central bankers concluded the potential for global economic recession was sufficient to warrant concerted action on two fronts. First, beginning in early October, the US Federal Reserve lowered interest rates, an action mirrored both in Canada and Europe. Second, the G-7

began the process of overhauling the existing institutions and instruments available for dealing with national, regional or global economic crises. Late in the year, the Japanese government implemented a series of legislative actions to begin resolving its banking crises. This will aid the recovery of this important economy which plays such a strategic role in the economy of east Asia.

The report of the Task Force on the Future of the Canadian Financial Services Sector, published in September, contained more than 100 recommendations which, if acted upon, would result in a greatly altered financial services industry. The next two years promise to be filled with debate on the proposed policy actions of the government.

In late November, our parent company, HSBC Holdings plc, announced the creation of a unified brand for the HSBC Group, using 'HSBC' and the company's hexagon symbol as its marketing name everywhere it operates. This major intiative is designed to achieve full recognition for HSBC as one of the world's largest and most successful financial services organizations. We have since announced that we would adopt the new marketing name in 1999. We are awaiting regulatory approval for new legal names for Hongkong Bank of Canada and its subsidiaries. While the legal name will change, the focus on superior customer service will remain.

Given these international and domestic events, it is a pleasure to acknowledge the excellent performance of Hongkong Bank of Canada. This was another year of record growth and achievement. Customer loyalty and superior service provided by the more than 5,000 employees remain the two major reasons for this success.

Finally, Gene Nesmith, the Bank's founding President, who has served on the Board of Directors since 1981, retired from the Board in January 1999. Bill Farlinger also stepped down from the Board in June 1998 after several years of active support. We wish them both well and thank them for their contributions.

James H. Cleave
Chairman of the Board

Vancouver, B.C.

Statement by the President and Chief Executive Officer

The Advantages of Global Connections

Advanced technology has transformed the delivery of financial services around the world; in banking, as in every other business, the global village has become a reality. More than ever before, worldwide connections provide a unique advantage to our customers and to financial services organizations, as we operate in a global, borderless marketplace.

Since our founding in 1981, the Bank has grown rapidly - both organically and through acquisition. Today, we are Canada's seventh largest full-service bank, with more than 140 offices in 9 provinces, as well as two offices in the northwestern United States. As a member of the HSBC Group, we are also part of one of the world's largest banking and financial services organizations. HSBC, which was established in Hong Kong in 1865, is headquartered in London and operates over 5,000 offices in 79 countries and territories around the world. Access to these global resources sets our Bank apart from other major Canadian financial institutions.

Personal and commercial customers benefit from the advantages of our international connections - whether travelling or doing business almost anywhere in the world, we can provide products and services that meet their financial needs.

The creation of a unified brand for the HSBC Group supports our common customer service culture. By adopting a single brand name, we are making a service pledge: HSBC customers worldwide will share a common experience, one that reflects our commitment to putting our customers first, every time, everywhere. The tangible benefits of this initiative translate into access to "best practices" and products which have been developed by HSBC Group members around the globe, opening opportunities to offer our customers new products which reflect their changing needs.

While we offer worldwide financial services, our roots are very much in the communities we serve. We have built our business by building relationships with our customers, within our local communities. That approach is reflected in our involvement in local charities and in our continued commitment to activities that support the future. This Bank, like many other members of the HSBC Group, is a strong supporter of organizations

Hongkong Bank of Canada Executive Committee, opposite right: Youssef A. Nasr, President and Chief Executive Officer; and left to right: Martin Glynn, Chief Operating Officer; Senior Executive Vice President Lindsay Gordon; and Executive Vice Presidents: Jeff Dowle; James Mahaffy and Sarah Morgan-Silvester

that focus on education and the environment, at both community and international levels.

1998 Operational Highlights

In 1998, the Bank continued to enjoy solid growth and strong financial performance, and provided a healthy contribution to shareholder value. Over the course of the year, we focused on building a world of financial services for our customers through strong internal initiatives and acquisitions.

Our Personal Financial Services Initiative is directed at improving our abilities to meet the changing needs of our growing personal customer base. To this end, we are not only developing new products and services, but are also upgrading the quality of the services we provide. This year, we invested substantial time and energy in training so that our staff are well qualified to provide proactive financial advice. Over 800 staff members participated in personal financial planning or counselling programs. As well, a number of our branches were upgraded so that they are now physically set up and organized to better serve our customers.

We also continued to look at how we can improve service for our commercial customers, recognizing that their needs, like those of our personal customers, change as their business grows. Our Commercial Financial Services Initiative, launched in 1998, is directed at assisting our business customers in areas such as providing sources of new capital, trade finance, financial planning advice, cash management and treasury services. Under this initiative, we are working closely with our subsidiary companies, such as HSBC Securities and HSBC Capital Canada Inc.

Youssef A. Nasr, President and Chief Executive Officer

Expanding Our Capabilities

During 1998, a number of acquisitions increased our capabilities to serve a wider range of clients and to provide a complete family of financial services for all customers.

Early in the year, we acquired the corporate and commercial banking business of National Westminster Bank of Canada, with total assets of CAD392 million and net assets of CAD109 million. We also strengthened our presence in the securities business, with the acquisition of two Toronto-based investment firms. The most recent of these, Gordon Capital Corporation, a leading Canadian institutional investment dealer, with net assets of approximately CAD45 million closed in early 1999. This acquisition, together with that of Moss, Lawson Holdings Limited in 1998, a long established retail broker,

Statement by the President and Chief Executive Officer (continued)

substantially expanded the services of HSBC Securities, our wholly-owned, full-service brokerage business.

I would like to take this opportunity to welcome all former clients of Gordon Capital, Moss Lawson and National Westminster. We look forward to developing long-lasting relationships with them.

The export sector is an area of great potential for the Canadian economy. During 1998, we acquired 19 percent of Northstar Trade Finance Inc., based in Richmond, British Columbia, to expand our range of trade services. With innovative export financing solutions from Northstar Trade Finance added to the trade services provided by HSBC offices in 79 countries and territories around the world, we can help Canadian exporters of all sizes to boost their competitive edge.

We are also continuing to move forward in other consumer service areas. Canadian Direct Insurance Incorporated, our wholly-owned subsidiary, offers British Columbia residents a choice for their auto and home insurance needs. Now in its third year of operation in British Columbia, Canadian Direct is expanding into Alberta, and has opened a state-of-the-art insurance call centre in Edmonton.

HSBC Asset Management Canada Ltd., Hongkong Bank Trust Company and HSBC InvestDirect Canada Inc. all improved their operations and made steady progress in 1998. HSBC Capital Canada Inc. launched an $85 million private equity fund and had another successful year.

Technology was another major focus for the Bank in 1998. We are well on track with our preparations for the Year 2000 and have plans and systems in place to accommodate Year 2000 compliance. We are also working closely with our customers and suppliers to help them prepare for Year 2000 compliance.

Our Group Systems Development Centre in Burnaby, British Columbia is an advanced technological facility dedicated to developing and supporting banking applications for HSBC Group operations worldwide. In June, 1998, construction began on a new building which will triple the facility's space. Our customers already enjoy the convenience of our Service*Plus* telephone banking and Hexagon commercial banking products. The new facility supports our commitment to providing the most advanced systems to facilitate the efficient delivery of services for HSBC customers around the world.

Our senior executive team is pleased to welcome our new Executive Vice Presidents: Jeff Dowle, formerly, Senior Vice President, Vancouver Main Branch; James Mahaffy, formerly Senior Vice President, Financial Services; and Sarah Morgan-Silvester, formerly, Senior Vice President, B.C. Region and Marketing.

Youssef A. Nasr
President and Chief Executive Officer

Vancouver, B.C.

Welcome to Your World of Financial Services

At Hongkong Bank of Canada, we are pleased to offer the services you need to make the most of your financial resources. Whether you are building a business, looking for investment strategies, or trading around the world, we bring local expertise, backed by global connections, to help you achieve your goals. We are Canada's seventh largest full-service bank, with over 140 offices across the country and two offices in the northwestern United States. Our membership in the HSBC Group means that we are able to draw upon other HSBC offices worldwide to provide informed advice and efficient service for all your financial decisions.

Personal Financial Services

Building and managing wealth is a life long process that calls for sound planning and astute decisions at every stage. That's why we provide services that cover the complete spectrum of our customers' personal financial needs. Clients who are building wealth receive the benefit of financial planning expertise provided by our knowledgeable staff in local branches and supported by the global resources of HSBC offices worldwide. And, as their situations evolve over time, we stay in step with our customers, responding with products and services that fit their needs as their lives change.

For everyday transactions, in addition to personal service, our Service*Plus* product offers the convenience of banking by telephone, 24 hours a day, seven days a week. For more specialized services, ranging from investment and brokerage dealings to asset management and estate planning, we can connect our customers with a complete family of products provided by our subsidiaries.

HSBC Securities, for example, provides expert investment advice and brokerage services for clients who want to make their own investment decisions. Discount trading is also available through HSBC InvestDirect and *net*TRADER, our on-line discount trading service.

Our family of mutual funds is rated among the top three mutual fund families in Canada, according to *Canadian Business* magazine (Sept. 25, 1998). The funds are managed by our subsidiary, HSBC Asset Management Canada Ltd., through portfolio managers who live and work in the countries where the funds are located.

For clients who are seeking professional asset management, HSBC Asset Management provides complete portfolio management on a discretionary basis. Every client receives the benefit of HSBC's expertise, with teams in place around the world comprised of Chief Investment Officers, Program Managers and analysts who research economic trends and opportunities worldwide.

When HSBC Asset Management provides discretionary investment management, our trust company handles investment administration and other vital financial services such as estate planning for our clients.

In each area, it is our staff who have earned our reputation for consistently superior service. From international research analysts, to local branch staff, we combine global intelligence with professional financial expertise. The results: sound advice for sound financial decisions.

Our approach is based on "relationship management," always providing the highest quality, proactive advice.

Sarah Morgan-Silvester, Executive Vice President

Virginia Greene, a partner in Go Direct Marketing, runs the Vancouver data-based marketing firm. A long-time customer, she came to Hongkong Bank of Canada 20 years ago when she bought her first home, and has dealt with the Bank for all her personal financial needs ever since. It's a relationship that works well for the successful entrepreneur: "The Bank is very respectful of my busy life. Most of my personal banking needs are handled by phone – even new car financing." When it comes to managing her investment and RRSP portfolio, Ms. Greene appreciates the Bank's proactive approach: "My personal financial advisor keeps me up-to-date on what's happening in the market, and regularly gives me evaluations and recommendations. They understand what I am trying to accomplish and are very proactive in helping me to achieve my goals."

Commercial Financial Services

Our business customers are changing the way they operate to keep pace with the changing demands of local and global markets – looking for ways to work faster, smarter, and reach new customers. We are changing, too, continually seeking better ways to work with our customers and help them succeed. The high rating we received in the 1998 Thompson Lightstone survey of small to mid-sized businesses, commissioned by the Canadian Bankers Association, reflects our efforts to deliver the kind of services our customers are looking for.

Jeff Dowle, Executive Vice President

Access to financial information and services 24 hours a day gives our business customers the edge in today's competitive environment. In addition to the Commercial Bank Card for making deposits and withdrawals at Automated Banking Machines, our Hexagon product provides convenient on-line banking and cash management services, enabling customers to conduct and monitor their domestic and international transactions from their own PC.

As a business matures, its requirements evolve: financial planning advice, cash management and treasury services, trade financing, the need to raise capital or do business in global markets may take priority. The Commercial Financial Services specialists in local branches are dedicated to looking after the interests of our business customers, and can put them in touch with the services available through our subsidiaries and HSBC offices around the world.

Companies looking to raise equity, for example, may be introduced to knowledgeable investment bankers through HSBC Securities, our wholly-owned, full-service brokerage business. HSBC Securities has offices across the country, and is directly linked to every major stock exchange in the world to ensure international coverage and thorough knowledge of local markets. Through HSBC Securities, we can offer Canadian companies an alternative - a domestic firm with excellent connections for accessing world capital markets.

What's most important is the level of service our customers receive in their dealings with us. Our customers will always be our first priority.

An operating philosophy based on product quality and long-term relationships has resulted in 60 years of success for General Woods and Veneers Ltd. From its world headquarters in Montreal, the company produces decorative veneer and lumber for furniture, fancy plywood, door and panel manufacturers worldwide. "We were looking for an international bank that could understand our business," says President, Steven Elefant. "More than 75 percent of our sales are to foreign markets, so efficient turn-around in processing export documents is key." Family owned and operated since 1939, the company places high value on long-term relationships with its customers and employees. And that's what they value most about working with Hongkong Bank of Canada, says Steven Elefant: "We know the people we are dealing with at all levels of the Bank, and that's very important to us."

Corporate and Institutional Financial Services

Connections are the key to success. We are working with HSBC Securities to achieve a high level of service for our customers.

James Mahaffy, Executive Vice President

Like our private customers, our corporate and institutional clients benefit from the breadth of services that come from the relationships with our subsidiaries and HSBC Group offices worldwide. Companies looking to expand, invest or take their business into international markets have the advantage of working with a single organization with the capabilities to provide treasury, trade finance, investment and other financial services whenever and wherever they are required.

The connections between our corporate banking services and our subsidiaries create opportunities for our clients to make sound investment decisions and to fund growth. HSBC Securities, for example, provides corporate finance and research services, as well as trading services and advice for our corporate and institutional clients. HSBC Securities' research and sales capabilities have been substantially increased with the acquisition of Gordon Capital, a major Canadian institutional investment dealer based in Toronto.

Fund management services for our institutional clients are provided by our wholly-owned subsidiary, HSBC Asset Management Canada Ltd. HSBC Capital Canada Inc., another wholly-owned subsidiary, works with institutional investors to raise capital for investment in mid-market growth companies. HSBC Capital Canada recently launched an $85 million Private Equity Fund which includes a number of major Canadian institutional investors among its participants. The increasing volume of transactions handled by HSBC Securities and HSBC Capital Canada reflects the success of our strategy of creating connections that benefit both our customers and the HSBC Group.

As one of Canada's leading trade finance banks, we are known for excellence in this area. For corporate clients who conduct business almost anywhere in the world, our foreign exchange capabilities include the new European single currency, the euro, and most Middle East and Asian currencies. As a member of the HSBC Group, we can link Canadian companies to trade services provided by other HSBC offices around the world, and we offer the best trade documentation services available, according to *Project & Trade Finance* magazine (June 1998).

In the fast growing field of 3D colour graphics for personal computers, ATI Technologies Inc. is a remarkable success story. The company's award-winning graphics accelerators and multimedia products are found in PC systems made by all of the world's Top 10 computer manufacturers. Founded in 1985, ATI is headquartered just outside Toronto, and operates manufacturing and sales facilities worldwide.

Hongkong Bank of Canada's support has been an important part of the story, says President Kwok Yuen (K.Y.) Ho, ATI's co-founder and CEO, who was named Ernst & Young's Canadian Entrepreneur of the Year in November 1998. "The Bank has believed in ATI from the beginning, and through the years has gained our confidence as a valued business partner. We look forward to further strengthening this partnership as we move forward together into the future."

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Facsimile: 44 0171-260 4829

Mortgage And Finance Berhad
BRUNEI DARUSSALAM
Shops 3 and 4
Goodwood Building
Mile 2 Jalan Gadong
Bandar Seri Begawan 3180
Telephone: 673 2 427969, 427970
Facsimile: 673 2 448474

Wayfoong Credit Limited
Wayfoong Finance Limited
HONG KONG
18/F, Leighton Centre
77 Leighton Road
Telephone: 852 2839 6333
Facsimile: 852 2895 4845

Wayfoong Mortgage And Finance (Singapore) Limited
SINGAPORE
6 Claymore Hill
#03-01 Claymore Plaza
Singapore 229571
Telephone: 65 7377977
Facsimile: 65 7378997

INSURANCE, RETIREMENT BENEFITS ACTUARIAL AND PERSONAL FINANCIAL SERVICES

Hang Seng Insurance Company Limited
HONG KONG
20/F, World-wide House
19 Des Voeux Road Central
Telephone: 852 2525 2151
Facsimile: 852 2845 9180

Hang Seng Life Limited
HONG KONG
5/F, 83 Des Voeux Road Central
Telephone: 852 2825 3212
Facsimile: 852 2530 3223

HSBC Gibbs Limited
HSBC Insurance Holdings Limited
UNITED KINGDOM
Bishops Court
27/33 Artillery Lane
London E1 7LP
Telephone: 44 0171-247 5433
Facsimile: 44 0171-377 2139
(HSBC Gibbs)
44 0171-247 7373
(HSBC Insurance Holdings)

HSBC Gibbs Personal Insurances Limited
UNITED KINGDOM
Hexagon House
Cleppa Park
Newport, Gwent NP1 9XT
Telephone: 44 01633-654300
Facsimile: 44 01633-817910

HSBC Insurance (Asia-Pacific) Holdings Limited
HONG KONG
40/F, Sun Hung Kai Centre
30 Harbour Road, Wanchai
Telephone: 852 2827 3322
Facsimile: 852 2827 7636

La Buenos Aires Compañia Argentina de Seguros S.A.
ARGENTINA
Casa Central
Avenida de Mayo 701
1084 Buenos Aires
Telephone: 54 1 331 1961/71/81
Facsimile: 54 1 334 0860

Midland Life Limited
UNITED KINGDOM
Norwich House
Nelson Gate
Commercial Road
Southampton SO15 1GX
Telephone: 44 01703-229929
Facsimile: 44 0117-925 1993

BULLION DEALING AND COMMODITY/BROKERAGE SERVICES

Wardley Broking Services Private Limited
SINGAPORE
21 Collyer Quay
#17-01 HongkongBank Building
Singapore 049320
Telephone: 65 2254007
Facsimile: 65 2249201

PROPERTY

Wayfoong Property Limited
HONG KONG
31/F, Hopewell Centre
183 Queen's Road East
Telephone: 852 2822 7211
Facsimile: 852 2861 2492

SHIPPING SERVICES

HSBC Shipbrokers Limited
HONG KONG
20/F, 111 Leighton Road
Telephone: 852 2923 7733
Facsimile: 852 2577 4188

Hongkong Bank of Canada Branches

British Columbia
Abbotsford
Burnaby (2)
Campbell River
Chilliwack
Coquitlam (2)
Cranbrook
Delta
Kamloops
Kelowna (2)
Langley
Maple Ridge
Nanaimo (2)
New Westminster
North Vancouver (2)
Penticton
Port Coquitlam
Prince George
Richmond (4)
Surrey
Vancouver (17)
Vernon
Victoria (4)
West Vancouver
White Rock

Alberta
Calgary (5)
Edmonton (4)
Lethbridge
Medicine Hat
Red Deer

Saskatchewan
Regina
Saskatoon

Manitoba
Winnipeg

Ontario
Barrie
Brampton
Etobicoke
Hamilton
Kingston
Kitchener
London
Markham (2)
Mississauga (5)
Oakville
Ottawa
Richmond Hill
St. Catharines
Sault Ste. Marie
Scarborough (3)
Thunder Bay
Timmins
Toronto (4)
Unionville
Vaughan
Whitby
Willowdale
Windsor

Québec
Brossard
Chicoutimi
Laval
Longueuil
Montréal (3)
Pointe-Claire
Québec City
Saint Léonard
Sherbrooke
Trois-Rivières

New Brunswick
Fredericton
Saint John

Nova Scotia
Dartmouth
Halifax

Newfoundland
St. John's

United States
Portland
Seattle

SUBSIDIARIES

Canadian Direct Insurance Incorporated
1-888-225-5234
www.canadiandirect.com

Hongkong Bank Trust Company
1-888-887-3388

HSBC Asset Management Canada Ltd.
Hongkong Bank Securities Inc.
1-888-390-3333
www.hksi.com

HSBC Capital Canada Inc.
(604) 631-8088
(416) 369-4748

HSBC InvestDirect Canada Inc.
1-800-398-1180
www.hsbcinvestdirect.com

HSBC Securities
(HSBC James Capel Canada Inc.)
1-800-332-1182

For more information, or to find the HSBC branch nearest you, call 1-800-889-4522 or visit our website: www.hsbc.ca

HSBC International Network

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Asia-Pacific	*Offices*
Australia	33
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Brunei Darussalam	13
China	18
Hong Kong Special Administrative Region	443
India	31
Indonesia	9
Japan	7
Kazakhstan	1
Korea, Republic of	6
Macau	6
Malaysia	46
Myanmar	1
New Zealand	8
Pakistan	4
Philippines	7
Singapore	30
Sri Lanka	8
Taiwan	10
Thailand	8
Vietnam	2

Americas	*Offices*
Argentina	178
Bahamas	6
Bermuda	1
Brazil	1,544
Canada	147
Cayman Islands	4
Chile	1
Guam	1
Mexico	2
Panama	5
Peru	1
Saipan	1
United States of America	445
Uruguay	1
Venezuela	1

Europe	*Offices*
Armenia	1
Azerbaijan	2
Channel Islands	25
Cyprus	149
Czech Republic	2
France	3
Germany	14
Greece	5
Hungary	1
Ireland	6
Isle of Man	4
Italy	3
Luxembourg	2
Malta	1
Netherlands	1
Poland	2
Russia	3
Spain	5
Sweden	2
Switzerland	4
Turkey	2
United Kingdom	1,746

Middle East and Africa	*Offices*
Angola	2
Bahrain	6
Côte d'Ivoire	1
Egypt	8
Ghana	1
Jordan	5
Kenya	1
Lebanon	6
Mauritius	14
Morocco	1
Mozambique	1
Namibia	1
Oman	5
Palestinian Autonomous Area	1
Qatar	3
Saudi Arabia	63
South Africa	6
Uganda	1
United Arab Emirates	15
Zambia	1
Zimbabwe	4

Associated companies are included in the network of offices.

Statement of Management's Responsibility for Financial Statements

The consolidated financial statements of Hongkong Bank of Canada have been prepared by, and are the responsibility of, the Bank's management. The presentation and information provided therein have been prepared in accordance with generally accepted accounting principles, including the accounting requirements of the Superintendent of Financial Institutions Canada ("the Superintendent"). The financial statements necessarily include amounts based on informed judgements and estimates of the expected effects of current events and transactions with appropriate consideration to materiality.

In meeting its responsibility for the reliability of financial information, management relies on comprehensive internal accounting, operating and system controls. The Bank's overall controls include an organizational structure providing for effective segregation of responsibilities, delegation of authority and personal accountability; written communication of policies and procedures of corporate conduct throughout the Bank and careful selection and training of personnel; the regular updating and application of written accounting and administrative policies and procedures necessary to ensure adequate internal control over transactions, assets and records; as well as a continued program of extensive internal audit covering all aspects of the Bank's operations. These controls are designed to provide reasonable assurance that financial records are reliable for preparing financial statements and maintaining accountability for assets, that assets are safeguarded against unauthorized use or disposition and that the Bank is in compliance with all regulatory requirements including compliance with the Canada Deposit Insurance Corporation ("CDIC") Standards of Sound Business & Financial Practices. Annually, the Bank completes the Standards Assessment and Reporting Program ("SARP") which details the Bank's compliance with the CDIC standards.

The Superintendent, at least once a year, makes such examination and enquiry into the affairs of the Bank as he feels necessary to satisfy himself that the provisions of the Bank Act, having reference to the safety of the deposits and the Shareholder of the Bank, are being duly observed and that the Bank is in a sound financial position.

The Board of Directors oversees management's responsibilities for financial statements through the Audit Committee, which is composed solely of directors who are not officers or employees of the Bank. The Audit Committee meets four times per year. During each year it reviews the adequacy of internal controls over accounting and financial reporting systems and discusses with the internal and external auditors the overall scope, timing and specific plans for their respective audits. The Audit Committee reviews with management and the Shareholder's auditors the content and format of the Bank's financial statements. As part of this process it reviews the adoption of and changes in accounting principles and practices that have a material effect on the Bank's financial statements and key management estimates and judgements material to those statements. The Committee also considers, for review by the Board and approval by the shareholder, the engagement or re-appointment of the Shareholder's auditors. The annual SARP is approved by the Board.

The Shareholder's auditors, the Bank's Vice-President and Chief Auditor and the Superintendent have full and free access to the Audit Committee to discuss audit, financial reporting and related matters.

Y.A. Nasr
President and Chief Executive Officer

J.T. Mould, C.M.A.
Chief Financial Officer

Auditors' Report

To the Shareholder of Hongkong Bank of Canada

We have audited the consolidated balance sheets of Hongkong Bank of Canada as at December 31, 1998 and October 31, 1997 and the consolidated statements of income, changes in shareholder's equity and changes in financial position for the fourteen months ended December 31, 1998 and year ended October 31, 1997. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Bank as at December 31, 1998 and October 31, 1997 and the results of its operations and the changes in its financial position for the fourteen months ended December 31, 1998 and year ended October 31, 1997 in accordance with generally accepted accounting principles, including the accounting requirements of the Superintendent of Financial Institutions Canada.

KPMG LLP

Chartered Accountants

Ernst & Young LLP

Chartered Accountants

January 21, 1999
Vancouver, Canada

Consolidated Balance Sheets

Assets *(in millions of dollars)*

	As at December 31, 1998	As at October 31, 1997
	(Note 2)	
Cash resources:		
Cash and deposits with Bank of Canada	$ 423	$ 172
Deposits with regulated financial institutions	1,214	1,932
	1,637	2,104
Securities: (note 3)		
Issued or guaranteed by Canada and provinces	3,101	2,926
Other securities	241	279
	3,342	3,205
Loans: (notes 4 & 5)		
Commercial loans	9,934	7,940
Residential mortgage loans	6,057	6,876
Consumer loans	1,751	1,869
Allowance for credit losses	(283)	(231)
	17,459	16,454
Other:		
Customers' liability under acceptances	1,267	1,258
Land, buildings and equipment (note 6)	110	88
Other assets (note 7)	1,021	801
	2,398	2,147
	$ 24,836	$ 23,910

See notes to consolidated financial statements

Liabilities

	As at December 31, 1998 (Note 2)	As at October 31, 1997
Deposits: (note 8)		
Regulated financial institutions	$ **1,893**	$ 1,114
Individuals	**10,213**	9,922
Businesses and governments	**8,444**	9,079
	20,550	20,115
Other:		
Acceptances	**1,267**	1,258
Other liabilities (note 9)	**1,552**	1,287
Non-controlling interest in subsidiary (note 10)	**30**	30
	2,849	2,575
Subordinated debt:		
Debentures (note 11)	**620**	549
Shareholder's equity:		
Capital stock (note 12)	**75**	75
Contributed surplus	**165**	165
Retained earnings	**577**	431
	817	671
	$ **24,836**	$ 23,910

Approved by the Board:

Chairman of the Board

President and Chief Executive Officer

Consolidated Statements of Income

(in millions of dollars except per share amounts)

	Fourteen months ended December 31, 1998 (Note 2)	Year ended October 31, 1997
Interest and dividend income:		
Loans	**$ 1,325**	$ 984
Lease financing	**30**	26
Securities	**219**	148
Deposits with regulated financial institutions	**143**	107
Total interest and dividend income	**1,717**	1,265
Interest expense:		
Deposits	**1,063**	729
Debentures	**48**	43
Total interest expense	**1,111**	772
Net interest income	**606**	493
Provision for credit losses (note 5)	**90**	38
Net interest income after provision for credit losses	**516**	455
Other income (note 13)	**332**	240
Net interest and other income	**848**	695
Non-interest expenses:		
Salaries and employee benefits	**310**	230
Premises and equipment expenses, including depreciation	**100**	72
Other	**214**	172
Total non-interest expenses	**624**	474
Income before provision for income taxes	**224**	221
Provision for income taxes (note 15)	**42**	83
Net income	**$ 182**	$ 138
Average number of common shares outstanding	**280,168,000**	280,168,000
Net income per common share	**$ 0.65**	$ 0.49

See notes to consolidated financial statements

Consolidated Statements of Changes in Shareholder's Equity

(in millions of dollars)

	Fourteen months ended December 31, 1998	Year ended October 31, 1997
	(Note 2)	
Capital stock: (note 12)		
Balance at beginning and end of period	**$ 75**	$ 75
Contributed surplus:		
Balance at beginning and end of period	**$ 165**	$ 165
Retained earnings:		
Balance at beginning of period	**$ 431**	$ 383
Net income	**182**	138
Dividends on common shares	**(36)**	(90)
Balance at end of period	**$ 577**	$ 431

See notes to consolidated financial statements

Consolidated Statements of Changes in Financial Position

(in millions of dollars)

	Fourteen months ended December 31, 1998 (Note 2)	Year ended October 31, 1997
Cash resources provided from (used in) operating activities:		
Net income	$ 182	$ 138
Adjustments to determine cash resources provided from operating activities:		
Provision for credit losses (note 5)	90	38
Provision for deferred income taxes (note 15)	5	26
Depreciation and amortization	29	31
Change in net accrued interest	27	15
Net (increase) decrease in other assets, net of accrued interest receivable	(168)	36
Net increase in other liabilities, net of accrued interest payable	167	435
Other items, net	(24)	(23)
	308	696
Cash resources provided from (used in) financing activities:		
Net increase in deposits from regulated financial institutions	779	958
Net increase in deposits from individuals	291	133
Net (decrease) increase in deposits from business and governments	(910)	632
Issue of bank debentures	60	–
Dividends paid	(36)	(90)
	184	1,633
Cash resources provided from (used in) investing activities:		
Businesses acquired (note 24)	(125)	–
Net increase in securities	(77)	(252)
Net increase in commercial loans	(1,725)	(801)
Net decrease (increase) in residential mortgage loans	819	(423)
Net decrease (increase) in consumer loans	118	(229)
Net increase in land, buildings, and equipment	(49)	(30)
	(1,039)	(1,735)
Net (decrease) increase in cash resources	(547)	594
Cash resources in businesses acquired at date of acquisition	80	–
Cash resources at beginning of period	2,104	1,510
Cash resources at end of period	$ 1,637	$ 2,104

See notes to consolidated financial statements

Notes to Consolidated Financial Statements

December 31, 1998 and October 31, 1997 (all tabular amounts are in millions of dollars)

Hongkong Bank of Canada (the Bank) is a wholly owned subsidiary of HSBC Holdings BV and, as a result, is an indirectly held, wholly owned subsidiary of HSBC Holdings plc (the Parent). In these consolidated financial statements, Group means the Parent and its subsidiary companies.

1 Accounting policies:

These consolidated financial statements have been prepared in accordance with generally accepted accounting policies, including the accounting requirements of the Superintendent of Financial Institutions Canada. Certain prior year amounts have been reclassified to conform with current period presentation. The significant accounting policies used in the preparation of these financial statements are summarized below.

a) Basis of consolidation:

The assets and liabilities and results of operations of the Bank and its subsidiaries are reported in the financial statements on a consolidated basis. All material intercompany transactions have been eliminated. The difference between the cost of investments in subsidiary companies and the fair values of net assets acquired is attributed to goodwill and recorded in other assets. Goodwill is amortized over the estimated period of benefit, not exceeding 15 years, except where there is a decline in value considered to be other than temporary.

b) Use of estimates in preparation of consolidated financial statements:

The preparation of the consolidated financial statements of the Bank requires management to make estimates and assumptions based on information available as of the date of the financial statements. Therefore, actual results could differ from those estimates.

c) Deposits with regulated financial institutions:

Deposits with regulated financial institutions are recorded at cost. Interest income on interest bearing deposits is recorded on an accrual basis.

d) Securities:

Investment account securities, where the Bank's intention is to hold the securities to maturity or until market conditions render alternative investments more attractive, are carried at cost or amortized cost. If the securities held for investment account experience a decline in value that is other than temporary, the carrying value is appropriately reduced. The amortization of premiums and discounts and adjustments to the carrying value of securities, other than debt securities, are included in other income. The amortization of premiums and discounts and adjustments to the carrying value of debt securities are included in net interest income. Gains and losses on the disposal of securities are included in other income.

Trading account securities, which are purchased for resale over a short period of time, are carried at market value. Gains and losses on disposal or revaluation are included in other income.

Loan substitute securities are customer financings structured as after-tax investments to provide the borrower with an interest rate advantage over what would otherwise be applicable on a conventional loan. Such securities are accorded the accounting treatment applicable to loans.

e) Loans:

Loans are stated net of any unearned income, unamortized premiums or discounts and an appropriate allowance for credit losses.

Interest income is recorded on the accrual basis unless the loan is classified as an impaired loan. Loans are considered to be impaired whenever there is no longer reasonable assurance as to the ultimate collectibility of some portion of principal or interest. Loans where interest is due and has not been collected for a period of 90 days are automatically recognized as impaired, unless management determines there is no reasonable doubt as to the ultimate collectibility of principal and interest. Loans where interest is due and has not been collected for a period of 180 days are automatically classified as impaired.

Notes to Consolidated Financial Statements (continued)

1 Accounting policies *(continued)*

Impaired loans are recorded at their estimated realizable amounts by discounting the expected future cash flows at the effective interest rate inherent in the loans except when the amounts and timing of future cash flows cannot be estimated with reasonable reliability, in which case estimated realizable amounts are measured at the fair value of any security underlying the loans, net of expected costs of realization. When a loan is classified as impaired, recognition of interest in accordance with the terms of the original loan agreement ceases. Subsequent payments (interest or principal) received on an impaired loan are recorded as a reduction of the recorded investment in the loan. Interest income is recognized only when all allowances for credit losses have been reversed.

Fees associated with lending activities are deferred and amortized over the term of the loans, and are included in income from loans in the consolidated statement of income.

f) Direct finance leases:

Direct finance leases are included in commercial and other loans in the balance sheets. Initial direct costs of direct finance leases are expensed as incurred. The investment in the lease is defined as the minimum lease payments receivable, including the purchase option price, less unearned income.

g) Allowance for credit losses:

The Bank maintains an allowance for credit losses which is considered adequate to absorb all credit related losses in its portfolio of both on and off-balance sheet items, including deposits with other regulated financial institutions, loan substitute securities, loans, acceptances, derivative instruments and other credit-related contingent liabilities, such as letters of credit and guarantees.

Assessing the adequacy of the allowance for credit losses is inherently subjective as it requires making estimates, including the amount and timing of expected future cash flows, that may be susceptible to significant change.

Specific allowances are recorded for specific credit exposures to reduce the carrying value of an impaired asset to its net realizable amount. Credit exposures are reviewed on a regular basis and provisions established on an item by item basis, as they are identified. The review process is performed by the Risk Management and Credit Services department, which is independent of the credit function.

A number of methods are used in determining specific allowances including discounted value of future cash flows, observable market values or the fair values of the underlying security.

The criteria for general allowances includes losses which Management estimates to have occurred in the portfolio of loans relating to individual or groups of loans but not yet identified as requiring specific provisions. The Credit and Risk Management department monitors the quality of the Bank's portfolio with specific emphasis on the economic environment, industry concentration, and other factors that may be appropriate. Levels of general allowances will change in accordance with the overall condition of the portfolio and are expected to increase with upturns in the economic cycle and decline as specific provisions are established during a downturn.

The provision for credit losses is charged to the consolidated statement of income and comprises the amounts written off during the year, net of recoveries on amounts written off in prior years, and changes in provisions.

h) Land, buildings and equipment:

Land is carried at cost. Buildings, and leasehold equipment improvements are carried at cost, less accumulated depreciation and amortization. Depreciation and amortization are calculated using the straight-line method over the estimated useful life of the related asset as follows: buildings - 40 years, equipment - 3 to 5 years, and leasehold improvements - 10 to 15 years.

i) Income taxes:

The Bank follows the tax allocation basis of accounting for income taxes, whereby income taxes on specific transactions are recorded in the period in which the transactions are recognized for accounting purposes regardless of when the transactions are recognized for tax purposes. Deferred income taxes are provided to recognize the effect of timing differences for those items of income and expense that may affect income for tax purposes in a period different from that in which they affect income for accounting purposes.

1 Accounting policies *(continued)*

j) Pension and other post-retirement employee benefits:

The Bank has two defined benefit pension plans for employees based on years of service and average earnings prior to retirement and a non-contributory defined contribution plan. Pension costs and obligations are determined using management's best estimates of various assumptions, such as projected employee compensation levels and rates of return on investments.

The Bank also provides certain health care and life insurance benefits for employees after retirement. The cost of these benefits is expensed as incurred.

k) Translation of foreign currencies:

Assets and liabilities in foreign currencies are translated into Canadian dollars at year-end spot exchange rates. Revenues and expenses in foreign currencies are translated into Canadian dollars at the rates in effect at the transaction date. Premiums and discounts on foreign currency forward contracts that hedge foreign currency assets and liabilities are amortized over the period to maturity as interest expense in the consolidated statement of income. Realized and unrealized gains and losses from foreign currency translation are included in other income in the consolidated statement of income.

l) Derivative instruments:

The Bank enters into various derivative contracts including foreign exchange contracts, interest rate and cross currency swaps, financial futures contracts and forward rate agreements in order to manage the risks associated with changes in interest and foreign exchange rates, to meet customer needs and to earn trading income. The net income or expense related to transactions used in managing the Bank's interest rate exposure is recognized on an accrual basis over the term of the agreement as an adjustment to interest expense in the consolidated statement of income. The net income or expense related to transactions used in managing the Bank's foreign exchange exposure is recognized on a mark to market basis as is the corresponding foreign currency asset or liability and recorded as an adjustment to other income in the consolidated statement of income. The net income or expense related to transactions entered into for trading purposes and for customer related transactions is recorded on a mark to market basis and recognized as other income in the consolidated statement of income.

m) Trust assets under administration:

Trust assets under administration are maintained separately from the Bank's assets and are not included in the Consolidated Balance Sheets.

n) Securitizations:

The Bank periodically sells groups of loans to unrelated third parties. Those transactions which transfer the risks and rewards of ownership and meet accepted criteria for recognition as sales are removed from the balance sheet.

Gains on such transactions are only included in other income when there is no recourse to the net proceeds. Revenue earned by the Bank in respect of servicing the assets sold is reflected in other income as services are provided.

Notes to Consolidated Financial Statements (continued)

2 Change in fiscal year-end

Effective for 1998, the Bank changed its fiscal year-end to December 31 to be consistent with that of the Parent. Accordingly, the consolidated balance sheet is presented as at December 31, 1998 with comparative amounts as at October 31, 1997. The consolidated statements of income, changes in shareholder's equity and changes in financial position present the results of operations and changes in financial position for the fourteen months ended December 31, 1998 with comparative amounts for the year ended October 31, 1997.

Condensed consolidated balance sheets as at October 31, 1998 (unaudited) and 1997 and condensed consolidated statements of income for the years ended October 31, 1998 (unaudited) and 1997 are presented below:

Condensed Consolidated Balance Sheets

	As at October 31	
	1998	1997
	(Unaudited)	
Assets		
Cash resources	**$ 1,635**	$ 2,104
Securities	**3,701**	3,205
Loans	**17,049**	16,454
Other	**2,337**	2,147
	$ 24,722	$ 23,910
Liabilities		
Deposits	**$ 20,483**	$ 20,115
Other	**2,825**	2,575
Subordinated debt	**621**	549
Shareholder's equity	**793**	671
	$ 24,722	$ 23,910

Condensed Consolidated Statements of Income

	For the years ended October 31	
	1998	1997
	(Unaudited)	
Interest and dividend income	**$ 1,467**	$ 1,265
Interest expense	**947**	772
Net interest income	**520**	493
Provision for credit losses	**68**	38
Net interest income after provision for credit losses	**452**	455
Other income	**276**	240
Net interest and other income	**728**	695
Non-interest expenses	**531**	474
Income before provision for income taxes	**197**	221
Provision for income taxes	**40**	83
Net income	**$ 157**	$ 138

3 Securities

	Term to maturity					
	Within 1 Year	*1-5 Years*	*5-10 Years*	*No Specific Maturity*	*Total Carrying Value* **December 31, 1998**	*Total Carrying Value* October 31, 1997
Investment securities						
Securities issued or guaranteed by:						
Canada	$ 1,615	$ 970	$ 25	$ –	**$ 2,610**	$ 2,375
Provinces	365	46	13	–	**424**	305
	1,980	1,016	38	–	**3,034**	2,680
Others	–	6	3	–	**9**	–
Mutual funds	–	–	–	14	**14**	6
Equity securities	7	18	7	5	**37**	60
Total investment securities	1,987	1,040	48	19	**3,094**	2,746
Loan substitute securities	–	29	–	–	**29**	3
Trading securities	103	–	–	116	**219**	456
Total securities	$ 2,090	$ 1,069	$ 48	$ 135	**$ 3,342**	3,205

Included in trading securities at December 31, 1998 are $67 million of securities issued or guaranteed by Canada (October 31, 1997 - $246 million).

Analysis of unrealized gains and losses on investment securities

	Carrying Value December 31, 1998	*Gross Unrealized Gains*	*Gross Unrealized Losses*	*Estimated Market Value* **December 31, 1998**	*Estimated Market Value* October 31, 1997
Securities issued or guaranteed by:					
Canada	$ 2,610	$ 10	$ (3)	**$ 2,617**	$ 2,395
Provinces	424	5	–	**429**	308
	3,034	15	(3)	**3,046**	2,703
Others	9	–	–	**9**	–
Mutual funds	14	–	(1)	**13**	6
Equity securities	37	4	–	**41**	72
	$ 3,094	$ 19	$ (4)	**$ 3,109**	$ 2,781

Notes to Consolidated Financial Statements (continued)

4 Loans

	December 31, 1998	October 31, 1997
Commercial loans:		
Real estate	**$ 3,306**	$ 2,978
Hotels and hospitality	**819**	810
Manufacturing	**1,126**	961
Trade	**2,249**	1,794
Services	**1,491**	762
Direct finance leases	**357**	327
Other	**586**	308
Total commercial loans	**9,934**	7,940
Residential mortgages	**6,057**	6,876
Consumer loans	**1,751**	1,869
Allowance for credit losses	**(283)**	(231)
	$ 17,459	$ 16,454

5 Impaired loans and allowance for credit losses

a. The Bank's investment in impaired loans and the related specific allowances are as follows:

	Gross Amount	*Specific Allowances*	*Carrying Amount* **December 31, 1998**	*Carrying Amount* October 31, 1997
Commercial loans:				
Real estate	$ 28	$ 10	**$ 18**	$ 23
Manufacturing	21	12	**9**	10
Trade	25	11	**14**	11
Services	15	7	**8**	6
Other	35	24	**11**	8
Consumer loans	15	11	**4**	3
Residential mortgages	18	1	**17**	25
	$ 157	$ 76	**$ 81**	$ 86

b. The Bank's allowance for credit losses is as follows:

	Beginning Balance November 1, 1997	*Provision for credit losses*	*Write-Offs*	*Recoveries and Other*	*Ending Balance* **December 31, 1998**
Specific allowances:					
Commercial Loans:					
Real estate	$ 21	$ 3	$ (14)	$ –	**$ 10**
Manufacturing	8	8	(4)	–	**12**
Trade	11	4	(4)	–	**11**
Services	6	12	(11)	–	**7**
Other	20	11	(8)	1	**24**
Consumer loans	9	8	(6)	–	**11**
Residential mortgages	–	2	(1)	–	**1**
Total specific allowances	75	48	(48)	1	**76**
General allowance[1]	156	42	–	9	**207**
Total	$ 231	$ 90	$ (48)	$ 10	**$ 283**

(1) The Bank's general allowance has been established to absorb losses in the Bank's total loan portfolio for which specific provisions cannot yet be determined. Accordingly, the general allowance has not been applied to reduce the carrying value of specific impaired loans shown in the table in note 5(a) above.

6 Land, buildings and equipment

	Cost	Accumulated depreciation and amortization	Net book value December 31, 1998	Net book value October 31, 1997
Land and buildings	$ 11	$ 2	$ 9	$ 6
Furniture and equipment	91	52	39	25
Computer equipment	55	35	20	17
Leasehold improvements	74	32	42	40
	$ 231	$ 121	$ 110	$ 88

Depreciation and amortization charged to income for the fourteen months ended December 31, 1998 amounted to $28 million (year ended October 31, 1997 - $18 million).

7 Other assets

	December 31, 1998	October 31, 1997
Accrued interest receivable	$ 202	$ 248
Due from clients, dealers and clearing corporations	575	293
Market revaluation of trading derivatives (note 21)	99	86
Accounts receivable and other	145	174
	$ 1,021	$ 801

8 Deposits

	Regulated financial institutions	Individuals	Businesses and Governments	Total December 31, 1998	Total October 31, 1997
Demand	$ 94	$ –	$ 868	$ 962	$ 725
Notice	–	2,147	1,596	3,743	3,783
Fixed date	1,799	8,066	5,980	15,845	15,607
	$ 1,893	$ 10,213	$ 8,444	$ 20,550	$ 20,115

9 Other liabilities

	December 31, 1998	October 31, 1997
Accrued interest payable	$ 316	$ 335
Mortgages sold with recourse	181	246
Payable to clients, dealers and clearing corporations	492	311
Market revaluation of trading derivatives (note 21)	99	92
Accounts payable and other	464	303
	$ 1,552	$ 1,287

10 Non-controlling interest in subsidiary

HongkongBank Mortgage Corporation, a wholly owned subsidiary of the Bank, has issued $30 million of class B perpetual preferred shares to HSBC Holdings BV. No dividends were paid or payable on these perpetual preferred shares for the fourteen months ended December 31, 1998 and year ended October 31, 1997. Dividends may be declared at the discretion of the directors of HongkongBank Mortgage Corporation.

Notes to Consolidated Financial Statements (continued)

11 Debentures

Debentures, which are unsecured and subordinated in right of payment to the claims of depositors and certain other creditors, comprise:

Interest rate %	*Year of maturity*	*Foreign Currency amount*	**December 31, 1998**	October 31, 1997
Issued to Group Companies				
5.81%[1]	2008		**$ 60**	$ 60
5.84[2]	2091		**185**	185
6.84[3]	2094	US$85	**130**	119
8.29[4]	2094		**25**	25
			400	389
Issued to others				
11.00[5]	2005		**60**	60
5.73[6]	2009		**60**	–
7.70[7]	2011		**60**	60
30 day bankers' acceptance rate plus 0.50%	2083		**40**	40
			220	160
Total			**$ 620**	$ 549

(1) Effective December 28, 1998, the year of maturity was amended from 2002. In addition, the interest rate was fixed at the then Government of Canada five year bond rate plus 0.95% until December 28, 2003. Thereafter, the rate reprices at the 90 day average bankers' acceptance rate plus 1.00%. From October 17, 1997 to December 27, 1998 the rate repriced at the 90 day average bankers' acceptance rate plus 0.50%.

(2) The interest rate is fixed at 5.84% until October 2002. Thereafter the rate reprices every 5 years at the then Government of Canada five year bond rate plus 0.70%. Prior to October 17, 1997 the rate was fixed at 7.92%.

(3) The interest rate is fixed at 6.84% until July 2000 and thereafter the rate reprices every 5 years at the then 5 year U.S. Treasury rate plus 0.80%.

(4) The interest rate is fixed at 8.29% until October 2000 and thereafter the rate reprices every 5 years at the then Government of Canada 5 year bond rate plus 0.70%.

(5) The interest rate is fixed at 11.00% until maturity.

(6) The interest rate is fixed at 5.73% until November 2004 and thereafter reprices at the 90 day average bankers' acceptance rate plus 1.00%.

(7) The interest rate is fixed at 7.70% until February 2006 and thereafter the rate reprices at the 90 day average bankers' acceptance rate plus 1.00%.

Interest expense for the fourteen months ended December 31, 1998 relating to debentures issued to Group companies amounted to $29 million (year ended October 31, 1997 - $30 million).

12 Capital stock

Authorized:

The authorized capital of the Bank is 994,117,500 shares without par value made up of 993,677,000 common shares and 440,500 special shares.

Issued and fully paid:

	Number of common shares	*Amount*
At December 31, 1998 and October 31, 1997	280,168,000	$ 75

13 Other income

	Fourteen months ended December 31, 1998	Year ended October 31, 1997
Investment and securities services	**$ 116**	$ 89
Deposit and payment services	**56**	46
Lending fees	**25**	23
Bankers' acceptance, letter of credit and guarantee fees	**41**	31
Trading revenue	**60**	34
Other	**34**	17
	$ 332	$ 240

14 Pension plans

Information with respect to the Bank's defined benefit pension plans for employees as at January 1, 1998 and 1997 is as follows:

	1998	1997
Pension fund assets, at estimated market value	**$ 144**	$ 132
Actuarially computed present value of accrued pension benefits	**85**	81
	$ 59	$ 51

15 Income taxes

Provisions for income taxes included in the consolidated statements of income are:

	Fourteen months ended December 31, 1998	Year ended October 31, 1997
Current	**$ 37**	$ 57
Deferred	**5**	26
	$ 42	$ 83

The provisions for income taxes shown in the consolidated statements of income are less than that obtained by applying statutory tax rates to the net income before provision for income taxes for the following reasons:

	Fourteen months ended December 31, 1998	Year ended October 31, 1997
Combined federal and provincial income tax rate	**44.7%**	44.8%
Decrease resulting from:		
Adjustment for tax exempt income related to preferred shares, common shares, and income debentures	**(9.4)**	(6.3)
Utilization of tax losses carried forward relating to acquisitions in prior years	**(11.6)**	(3.5)
Other, net	**(4.9)**	2.6
	18.8%	37.6%

Notes to Consolidated Financial Statements (continued)

16 Long-term lease commitments

Future minimum commitments under long-term leases of premises are as follows:

1999	$	27
2000		26
2001		24
2002		22
2003		19
2004 and thereafter		85
	$	203

The total rental expense charged in respect of premises for the fourteen months ended December 31, 1998 was $37 million (year ended October 31, 1997 - $29 million).

17 Guarantees and letters of credit

The Bank issues guarantees and letters of credit to meet credit requirements of its customers. The amounts are not included in the consolidated balance sheets and are as follows:

	December 31, 1998	October 31, 1997
Guarantees	**$ 723**	$ 482
Letters of credit	**416**	263
	$ 1,139	$ 745

In the event of a call on the above commitments, the Bank has recourse against the customer.

18 Contingencies

The Bank is subject to a number of legal claims and other contingencies arising in the normal course of its business. Legal actions have been filed against the Bank in connection with certain class action and related suits. A partial settlement has been reached in the class action suits. Management believes that the remaining claims and actions are without merit and will vigorously defend these matters. Management is of the opinion that adequate provision for any potential liability has been made.

A Bank subsidiary is subject to threatened action relating to its responsibilities as a distributor, escrow agent and custodian. Management intends to defend itself vigorously, but is of the opinion that the ultimate outcome cannot be determined at this time. Accordingly, no provision has been recorded in the consolidated financial statements relating to this matter.

The Bank is subject to recourse for potential credit losses in connection with asset securitizations. As at December 31, 1998, the recourse against the Bank under securitization transactions is $17 million (October 31, 1997 - nil).

19 Year 2000

The Year 2000 issue arises because many existing computer systems record and identify years with two digits, rather than four. These systems may not properly distinguish years beginning on or after 1999, as they may, for example, recognize the year 2000 as 1900 or another date. As a result, data processing by such date-sensitive systems may result in errors. The effects of the Year 2000 issue may be experienced before, on, or after January 1, 2000. If not properly addressed, the impact on operations and financial reporting may range from minor calculation errors to significant systems failures which could affect the Bank's ability to process transactions or engage in normal business activities. The Bank is implementing an extensive project plan designed to identify and address the expected effects of the Year 2000 issue on the Bank including, where required, modification of the Bank's own computer systems. In addition, the plan is designed to address the readiness of borrowers, customers, suppliers and other third parties including entities which exchange data with the Bank. Due to the general uncertainty inherent in the Year 2000 issue, particularly relating to the readiness of other parties, it is not possible to be certain that all aspects of the year 2000 issue will be resolved.

20 Fair value of financial instruments

The amounts below represent the fair values of the Bank's on balance sheet financial instruments at December 31, 1998 and October 31, 1997. Fair value is the estimated amount of the consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

	December 31, 1998			October 31, 1997		
	Book Value	*Fair Value*	*Fair Value over (under) book value*	*Book Value*	*Fair Value*	*Fair Value over (under) book value*
Financial assets:						
Cash resources	**$ 1,637**	**$ 1,637**	**$ –**	$ 2,104	$ 2,104	$ –
Securities	**3,342**	**3,357**	**15**	3,205	3,240	35
Loans	**17,459**	**17,483**	**24**	16,454	16,561	107
Other assets	**2,288**	**2,288**	**–**	2,059	2,059	–
Financial liabilities:						
Deposits	**$ 20,550**	**$ 20,563**	**$ 13**	$ 20,115	$ 20,180	$ 65
Other liabilities	**2,849**	**2,849**	**–**	2,575	2,575	–
Subordinated debt	**620**	**646**	**26**	549	579	30

The determination of fair values of financial instruments for which there are no quoted market values requires that a number of assumptions are made for which there exists a significant degree of subjectivity.

The following methods and assumptions were used to estimate the fair value of these financial instruments:

- Cash resources, Other assets and Other liabilities, due to their short term nature, are assumed to approximate their carrying values.
- Securities are assumed to be equal to the estimated market value of securities based on quoted market prices where available. If quoted market prices are not available, fair values are estimated using quoted market prices of similar securities or other valuation techniques.
- Floating rate and consumer loans are assumed to be equal to their book value. The fair value of commercial and residential mortgage loans with fixed terms are estimated using a discounted cash flow calculation at current rates for loans with similar terms and credit risks.
- Demand and floating rate deposits are assumed to be equal to their carrying value. The fair value of fixed rate deposits are estimated using a discounted cash flow calculation at market rates.
- Subordinated debt is determined by reference to current market prices for debt with similar terms and risks.

21 Derivative instruments

In the ordinary course of business, the Bank enters into various derivative contracts such as foreign exchange contracts, interest rate swaps, forward rate agreements and financial futures contracts whose notional principal is not included in the consolidated balance sheets.

Derivatives are contracts whose value is derived from an underlying asset or an underlying reference rate or index such as interest or foreign exchange rates. The Bank uses derivatives for both trading and asset/liability management purposes.

Trading related activity includes transactions undertaken on behalf of the Bank and its customers ("Trading"). Asset/liability management derivatives are used by the Bank to manage its exposures to interest rate and foreign currency fluctuations and where appropriate the Bank may use customer related trading transactions as part of its asset/liability management ("ALM") program.

The Bank strictly adheres to its formalized risk management policies and procedures. Risk limits are determined for each portfolio of derivative instruments based on product, currency, interest rate repricing and market volatility. All limits are monitored on a daily basis.

Derivative instruments are subject to both market risk and credit risk. Market risk is the risk that the fair value of derivatives will fluctuate due to changes in interest and foreign exchange rates. Market risk is managed on a consolidated Bank basis.

Notes to Consolidated Financial Statements (continued)

21 Derivative instruments *(continued)*

Credit risk for derivative instruments is not equal to the notional amount of the principal as it is with assets recorded on the balance sheets. The credit risk for derivatives is principally the replacement cost of any contract with a positive market value including an estimate for future fluctuation risk. Credit risk for derivatives is managed using the Bank's risk management policies.

a) An analysis of the Bank's derivative portfolio and related credit exposure at December 31, 1998 and October 31, 1997 is as follows:

	December 31, 1998				October 31, 1997			
	Notional Amount	*Current Replacement Cost*	*Credit Equivalent Amount*	*Risk Weighted Balance*	*Notional Amount*	*Current Replacement Cost*	*Credit Equivalent Amount*	*Risk Weighted Balance*
Interest rate contracts								
Forward rate agreements	**$ 845**	**$ –**	**$ –**	**$ –**	$ 2,942	$ –	$ –	$ –
Futures – exchange traded	**1,888**	**1**	**1**	**–**	3,863	-	–	–
Swaps	**11,644**	**68**	**97**	**31**	11,100	59	87	36
Caps	**54**	**1**	**1**	**–**	–	–	–	–
	14,431	**70**	**99**	**31**	17,905	59	87	36
Foreign exchange contracts								
Spot contracts	**238**	**1**	**–**	**–**	1,012	1	–	–
Forward contracts	**12,568**	**146**	**302**	**94**	10,617	143	267	71
Currency swaps and options	**115**	**1**	**3**	**–**	–	–	–	–
	12,921	**148**	**305**	**94**	11,629	144	267	71
Equity contracts	**109**	**1**	**8**	**4**	151	4	13	7
Total	**$ 27,461**	**$ 219**	**$ 412**	**$ 129**	$ 29,685	$ 207	$ 367	$ 114

Notional amounts are the contract amounts used to calculate the cash flows to be exchanged. They are a common measure of volume of outstanding transactions, but do not represent credit or market risk exposure.

Current replacement cost represents the estimated cost of replacing, at current market rates, all contracts with a positive value.

Credit equivalent amount is the current replacement cost plus an amount for future credit exposure associated with the potential for future changes in currency and interest rates. The future credit exposure is calculated using a formula prescribed by the Superintendent in its capital adequacy guidelines.

Risk-weighted balance represents the amount based upon which the regulatory capital required to support the Bank's derivative activities is calculated. It is derived from risk weighting the credit equivalent amounts according to the creditworthiness of the counterparties using factors prescribed by the Superintendent in its capital adequacy guidelines.

b) The following tables summarize the notional amounts by remaining term to maturity of the Bank's derivative portfolio at December 31, 1998 and October 31, 1997 segregating derivative instruments between those entered into by the Bank for its trading activities and those used to manage the risk associated with changes in interest and foreign exchange rates as part of the Bank's ALM program.

21 Derivative instruments *(continued)*

December 31, 1998

	Customer and Proprietary Trading				*ALM*				
	Under 1 year	*1 - 5 years*	*Over 5 Years*	*Trading*	*Under 1 year*	*1 - 5 years*	*Over 5 years*	*Total ALM*	*Total*
Interest rate contracts									
Forward rate agreements	$ 845	$ –	$ –	$ 845	$ –	$ –	$ –	$ –	$ 845
Futures – exchange traded	1,076	246	–	1,322	566	–	–	566	1,888
Swaps	3,787	1,777	45	5,609	2,336	3,579	120	6,035	11,644
Caps	–	–	54	54	–	–	–	–	54
	5,708	2,023	99	7,830	2,902	3,579	120	6,601	14,431
Foreign exchange contracts									
Spot contracts	222	–	–	222	16	–	–	16	238
Forward contracts	6,306	420	–	6,726	5,823	19	–	5,842	12,568
Currency swaps and options	74	17	–	91	–	24	–	24	115
	6,602	437	–	7,039	5,839	43	–	5,882	12,921
Equity futures contracts	63	46	–	109	–	–	–	–	109
Total	$ 12,373	$ 2,506	$ 99	$ 14,978	$ 8,741	$ 3,622	$ 120	$ 12,483	$ 27,461

October 31, 1997

	Customer and Proprietary Trading				*ALM*				
	Under 1 year	*1 - 5 years*	*Over 5 Years*	*Trading*	*Under 1 year*	*1 - 5 years*	*Over 5 years*	*Total ALM*	*Total*
Interest rate contracts									
Forward rate agreements	$ 2,942	$ –	$ –	$ 2,942	$ –	$ –	$ –	$ –	$ 2,942
Futures – exchange traded	2,959	200	–	3,159	704	–	–	704	3,863
Swaps	3,922	1,671	–	5,593	3,088	2,347	72	5,507	11,100
	9,823	1,871	–	11,694	3,792	2,347	72	6,211	17,905
Foreign exchange contracts									
Spot contracts	822	–	–	822	190	–	–	190	1,012
Forward contracts	5,463	270	–	5,733	4,884	–	–	4,884	10,617
	6,285	270	–	6,555	5,074	–	–	5,074	11,629
Equity futures contracts	151	–	–	151	–	–	–	–	151
Total	$ 16,259	$ 2,141	$ –	$ 18,400	$ 8,866	$ 2,347	$ 72	$ 11,285	$ 29,685

Notes to Consolidated Financial Statements (continued)

21 Derivative instruments *(continued)*

c) The following tables summarize the fair values, as represented by the sum of the net unrealized gains and losses, accrued interest receivable and payable and premiums paid or received, of the Bank's derivative portfolio at December 31, 1998 and October 31, 1997 segregating derivative instruments between Trading and ALM and between those that are in a favourable or receivable position from those in an unfavourable or payable position.

Trading derivatives are marked to market on a daily basis and the net position for the trading portfolio shown in the table below has already been recognized in the financial statements. ALM interest rate derivatives are accounted for on the accrual basis and the net income or expense is recognized over the life of the derivative contract. Foreign exchange derivatives used for ALM purposes are accounted for on an accrual basis as are the underlying assets and liabilities hedged. The ALM portfolio is used to manage the Bank's exposure to changes in interest and foreign currency rates. Consequently, the net favourable or unfavourable position in the ALM portfolio shown in the table below is approximately offset by changes in the values in the underlying hedged assets and liabilities.

Fair values of derivative instruments are determined using quoted market prices.

December 31, 1998

	Customer and Proprietary Trading			*ALM*			
	Favourable Position	*(Unfavourable) Position*	*Net Position*	*Favourable Position*	*(Unfavourable) Position*	*Net Position*	*Total Net*
Interest rate contracts							
Forward rate agreements	$ –	$ –	$ –	$ –	$ –	$ –	$ –
Futures	1	(1)	–	–	(1)	(1)	(1)
Swaps	22	(23)	(1)	46	(38)	8	7
Caps	1	–	1	–	–	–	1
	24	(24)	–	46	(39)	7	7
Foreign exchange contracts							
Spot contracts	1	–	1	–	–	–	1
Forward contracts	72	(75)	(3)	74	(33)	41	38
Currency swaps and options	1	–	1	–	(1)	(1)	–
	74	(75)	(1)	74	(34)	40	39
Equity contracts	1	–	1	–	–	–	1
Total	$ 99	$ (99)	$ –	$ 120	$ (73)	$ 47	$ 47

October 31, 1997

	Customer and Proprietary Trading			*ALM*			
	Favourable Position	*(Unfavourable) Position*	*Net Position*	*Favourable Position*	*(Unfavourable) Position*	*Net Position*	*Total Net*
Interest rate contracts:							
Forward rate agreements	$ –	$ (1)	$ (1)	$ –	$ –	$ –	$ (1)
Futures	–	–	–	–	–	–	–
Swaps	24	(31)	(7)	35	(79)	(44)	(51)
	24	(32)	(8)	35	(79)	(44)	(52)
Foreign exchange contracts:							
Spot contracts	1	–	1	–	–	–	1
Forward contracts	57	(60)	(3)	86	(3)	83	80
	58	(60)	(2)	86	(3)	83	81
Equity contracts	4	–	4	–	–	–	4
Total	$ 86	$ (92)	$ (6)	$ 121	$ (82)	$ 39	$ 33

22 Interest rate sensitivity position

The following table provides an analysis of the Bank's interest rate sensitivity position at December 31, 1998 and October 31, 1997 based on contractual repricing dates of assets and liabilities:

December 31, 1998

	Within 3 months	*3 to 6 months*	*6 to 12 months*	*Effective Interest Rate (%)*	*Greater than 1 year*	*Effective Interest Rate (%)*	*Non-Interest Sensitive*	*Total*
Cash resources	**$ 804**	**$ 116**	**$ 69**	**5.4**	**$ –**	**–**	**$ 648**	**$ 1,637**
Securities	**1,515**	**67**	**501**	**5.5**	**1,124**	**6.8**	**135**	**3,342**
Loans	**9,648**	**1,070**	**1,482**	**6.6**	**5,384**	**7.4**	**(125)**	**17,459**
Other assets	**–**	**–**	**–**	**–**	**–**	**–**	**2,398**	**2,398**
Total assets	**11,967**	**1,253**	**2,052**	**–**	**6,508**	**–**	**3,056**	**24,836**
Deposits	**14,461**	**1,640**	**2,861**	**4.0**	**626**	**7.2**	**962**	**20,550**
Other liabilities	**–**	**–**	**–**	**–**	**–**	**–**	**2,849**	**2,849**
Subordinated debt	**40**	**–**	**–**	**5.7**	**580**	**6.9**	**–**	**620**
Shareholder's equity	**–**	**–**	**–**	**–**	**–**	**–**	**817**	**817**
Total liabilities & shareholder's equity	**14,501**	**1,640**	**2,861**	**–**	**1,206**	**–**	**4,628**	**24,836**
On-balance sheet gap	**(2,534)**	**(387)**	**(809)**	**–**	**5,302**	**–**	**(1,572)**	**–**
Off-balance sheet positions	**1,459**	**(929)**	**(347)**	**–**	**(74)**	**–**	**(109)**	**–**
Total interest rate gap	**$ (1,075)**	**$ (1,316)**	**$ (1,156)**	**–**	**$ 5,228**	**–**	**$ (1,681)**	**$ –**

October 31, 1997

	Within 3 months	*3 to 6 months*	*6 to 12 months*	*Effective Interest Rate (%)*	*Greater than 1 year*	*Effective Interest Rate (%)*	*Non-Interest Sensitive*	*Total*
Cash resources	$ 1,445	$ 94	$ 258	3.9	$ –	–	$ 307	$ 2,104
Securities	1,172	607	234	4.0	1,023	7.0	169	3,205
Loans	8,573	1,292	1,600	5.4	5,057	7.0	(68)	16,454
Other assets	–	–	–	–	–	–	2,147	2,147
Total assets	11,190	1,993	2,092	–	6,080	–	2,555	23,910
Deposits	14,300	1,632	2,744	3.4	747	6.2	692	20,115
Other liabilities	–	–	–	–	–	–	2,575	2,575
Subordinated debt	100	–	–	4.4	449	7.2	–	549
Shareholder's equity	–	–	–	–	–	–	671	671
Total liabilities & shareholder's equity	14,400	1,632	2,744	–	1,196	–	3,938	23,910
On balance sheet gap	(3,210)	361	(652)	–	4,884	–	(1,383)	–
Off balance sheet positions	3,132	(412)	(1,304)	–	(1,416)	–	–	–
Total interest rate gap	$ (78)	$ (51)	$ (1,956)	–	$ 3,468	–	$ (1,383)	$ –

An immediate and sustained parallel increase in interest rates of 1% across all currencies and maturities would reduce net interest income by $22 million (1997 - $5 million) over the next twelve months assuming no additional hedging is undertaken.

In managing interest rate risk, the Bank relies primarily upon its contractual interest rate sensitivity position adjusted for certain assumptions regarding customer behavioural preferences which are based upon historical trends. Adjustments made include assumptions relating to early repayment of consumer loans and residential mortgages and customer preferences for demand, notice and redeemable deposits. Based upon these adjustments, it is estimated that an immediate and sustained parallel increase in interest rates of 1% across all currencies and maturities would decrease net interest income by $12 million (1997 - $3 million) over the next twelve months assuming no additional hedging.

Notes to Consolidated Financial Statements (continued)

23 Segmented information

Assets:

An analysis of the Bank's assets on the basis of the location of ultimate risk is as follows:

	December 31, 1998		October 31, 1997	
	Amount	*Percent*	*Amount*	*Percent*
Canada	**$ 23,688**	**95.4**	$ 22,850	95.6
United States	**920**	**3.7**	899	3.8
Hong Kong SAR	**47**	**0.2**	40	0.1
Other	**181**	**0.7**	121	0.5
	$ 24,836	**100.0**	$ 23,910	100.0

Liabilities:

An analysis of the Bank's deposit, acceptances and other liabilities on the basis of the residence status of the bearer of the liabilities is as follows:

	December 31, 1998		October 31, 1997	
	Amount	*Percent*	*Amount*	*Percent*
Canada	**$ 18,123**	**77.6**	$ 17,732	78.2
United States	**1,969**	**8.4**	1,880	8.3
Hong Kong SAR	**2,448**	**10.5**	2,375	10.5
Other	**829**	**3.5**	673	3.0
	$ 23,369	**100.0**	$ 22,660	100.0

Total interest and dividend income:

An analysis of the total interest and dividend income on the basis of geographic location is as follows:

	Fourteen months ended December 31, 1998		Year ended October 31, 1997	
	Amount	*Percent*	*Amount*	*Percent*
Domestic	**$ 1,587**	**92.5**	$ 1,171	92.6
International	**130**	**7.5**	94	7.4
Total	**$ 1,717**	**100.0**	$ 1,265	100.0

24 Business acquisitions and long-term investments

Pursuant to letters patent issued by the Minister of Finance, the Bank and HongkongBank Loan Corporation, the corporate successor to National Westminster Bank of Canada were amalgamated and continued under the name of Hongkong Bank of Canada effective May 1, 1998. On July 6, 1998, HSBC James Capel Canada Inc. and Moss, Lawson Holdings Ltd., a retail brokerage company, were amalgamated and continued as HSBC James Capel Canada Inc. These acquisitions were accounted for by the purchase method. The fair value of net assets acquired consists of:

Assets	$ 504
Liabilities	388
Net assets acquired	116
Goodwill	9
Cash consideration	$ 125

On December 4, 1998 the Bank acquired a 19% interest in Northstar Trade Finance Inc., a Canadian export finance company, for $2 million.

25 Related party transactions

The Bank pays guarantee fees to Group companies with respect to guarantees of certain debentures and deposit liabilities. The total fees for the fourteen months ended December 31, 1998 amounted to $43 million (year ended October 31, 1997 - $34 million).

Group companies hold certain debentures of the Bank (note 11).

The Bank has an agreement with a Group company to provide a standby borrowing facility of up to US$200 million to the Bank at market rates and conditions. Funds have not been drawn from the facility since entering into the agreement.

In addition to the above related party transactions, the Bank has transactions of a routine nature with Group companies, none of which is material to these financial statements.

The Bank's wholly owned principal operating subsidiaries are as follows:

Principal Subsidiaries	*Principal Office Address*	*Book Value of Voting shares*
HongkongBank Mortgage Corporation	Vancouver, British Columbia	$ 156
Hongkong Bank Trust Company	Edmonton, Alberta	35
Canadian Direct Insurance Incorporated	New Westminister, British Columbia	30
HSBC James Capel Canada Inc.(1)	Toronto, Ontario	11
HSBC Capital Canada Inc.	Vancouver, British Columbia	3
HSBC InvestDirect Canada Inc.(2)	Toronto, Ontario	1
Hongkong Bank Securities Inc.	Vancouver, British Columbia	1
HSBC Asset Management Canada Limited(3)	Vancouver, British Columbia	1

(1) Operating under the trade name HSBC Securities, indirectly held through the holding company, James Capel Canada Holdings Inc.

(2) During the year Hongkong Bank Discount Trading Inc. changed its name to HSBC InvestDirect Canada Inc..

(3) During the year, M.K. Wong and Associates Ltd. changed its name to HSBC Asset Management Canada Limited.

26 Subsequent events

On January 1, 1999, HSBC James Capel Canada Inc. amalgamated with Gordon Capital Corporation, an institutional brokerage company. All of the Special Shares issued on the amalgamation to the former shareholders of Gordon Capital Corporation were redeemed on January 4, 1999, leaving James Capel Canada Holdings Inc. as the sole shareholder. On that same date, the Bank invested $70 million in the share capital of HSBC James Capel Canada Inc.

As part of the same transaction, HSBC James Capel Canada Inc. acquired all of the issued and outstanding shares of Gordon Private Client Corporation, a retail brokerage company and of GPCC Holdings Inc.

The cost of these acquisitions, including expenses, is expected to be approximately $50 million.

Risk Management Policies

Overall Approach

The Bank has adopted a prudent approach to risk management by implementing policies which encourage development of profitable business strategies within acceptable well defined risk limits which are monitored on a regular basis.

It is the responsibility of management to develop policies and procedures to monitor and control the business risks in the environment that the Bank operates. The Bank, as part of the HSBC Holdings plc international group of financial institutions, utilizes the basic risk management processes adopted by the Group. However, these are tailored to the Canadian banking environment.

The process and overall limits recommended by management are reviewed and the limits are approved by the Board of Directors at least annually. The Bank's internal audit department assesses each area of the Bank's operations and carries out appropriate assurance procedures to monitor the risk management process and ensure that it has not been compromised.

The Bank also controls its risk by ensuring that appropriate reporting systems and processes exist to monitor its risk areas and the Bank employs appropriately qualified staff to manage and monitor the risk process.

Major types of risk

The major types of risk inherent in the banking environment include credit, liquidity, interest rate and foreign exchange rate risks. Other risks which are actively managed include market and operational risk.

Credit Risk is the risk that a loss will occur due to the failure of a counterparty or borrower to meet its contractual financial obligations. Transactions which involve credit risks include traditional lending activities, settling payments between the Bank and its counterparties and other commitments to the Bank that result in replacement risk.

Liquidity risk is the risk that the Bank will encounter difficulty in raising funds to meet commitments.

Market, interest rate and foreign exchange rate risks are the risks that the value of the Bank's assets will fluctuate due to changes in market values of securities or to changes in interest and foreign exchange rates.

Operational risk is the risk of loss should the Bank encounter errors or failures to correctly process transactions or information. The Year 2000 issue is one of the best-known examples of operational risks.

Risk Management Practices

In controlling its risks, the Bank has adopted a number of risk management practices and controls to ensure all transactions and processes involving risk are identified and subject to appropriate authorized control procedures so as to minimize the potential for loss. Risk management practices are summarized as:

- written policies approved by the Board;
- position and control limits where appropriate to limit exposures; approved by the Board;
- committees of management and the board review positions taken and approve proposed transactions;
- regular monitoring of all types of information pertaining to risk, particularly exception reporting of over limit transactions or unmatched/unhedged items;
- training of all Bank staff to ensure sufficient understanding of risk situations so as to reduce the amount of risk exposure; and
- independent internal audit function which is focused on areas of most significant risk.

Management

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MANAGEMENT

Youssef A. Nasr
President and Chief Executive Officer

Martin J.G. Glynn
Chief Operating Officer

J. Lindsay Gordon*
Senior Executive Vice President

Jeffrey C. Dowle
Executive Vice President

James F. Mahaffy*
Executive Vice President

Sarah A. Morgan-Silvester
Executive Vice President

John T. Mould
Chief Financial Officer and Ombudsperson

Bruna A. Giacomazzi
Adviser to the President

Milton K. Wong
Chairman, HSBC Asset Management Canada Ltd.
and Adviser to the President

Robert S. Anthony
Senior Vice President, Credit

William C. Crawford
Senior Vice President, Marketing

James B. Howden*
Senior Vice President, Risk Management and Credit Services

J. Brad Meredith*
Senior Vice President, Treasury

Raymond Morgan
Senior Vice President, Services

Sean P. O'Sullivan
Senior Vice President, Distribution Systems

Joey S.C. Sit
Senior Vice President, Human Resources

Alfred H. Tong
Senior Vice President, Group Systems Development Centre

Patrice H.C. Blondel*
Vice President, International Trade

Janice Book*
Vice President, Investment Services

Ward Chapin
Vice President, Technical and Corporate Services

Henry Fetigan
Vice President, Business Development, B.C. Region

Henry Koa
Vice President, Financial Services Systems

R. Michael Leury
Vice President, Banking Systems

Kenneth K.T. Li
Vice President, Operations Support

Graham A. McIsaac
Vice President, Strategic Development and Financial Management

William McLaney*
Vice President, Credit East

Marjory Miller
Vice President, Strategic Planning and Corporate Secretary

Patrick Nolan*
Vice President, Corporate Finance,
HSBC Securities

David M. Sargeant
Vice President and Chief Auditor

Ronald R. Soeder
Vice President, Distribution Systems

Milan J. Stevulak
Vice President, Hongkong Bank Leasing

Jayne Sutherland
Vice President of Government and Public Affairs

Judi C. Wood*
Vice President, Corporate Banking

Anna C.H. Yip**
Vice President and Representative,
Hongkong Bank of Canada Representative Office

Christopher J. Young
Vice President and Chief Accountant

B.C. REGION

I. Dewar Harper
Senior Vice President, B.C. Region

David S. Lee
Senior Vice President, B.C. Region and Manager
Wayfoong House Branch, Vancouver

R. Steve Tait
Senior Vice President, B.C. Region

David Tunnicliffe
Senior Vice President and Manager
Vancouver Main Branch

Michael P. Cepin
Vice President, Commercial Banking
Vancouver Main Branch

Adrian C. Chan
Vice President, Commercial Banking
Vancouver Main Branch

T. Andrew Hockin
Vice President and Manager
North Vancouver Branch

Management (continued)

Joanna K. Kong
Vice President and Deputy Manager
Wayfoong House Branch, Vancouver

Henry K.B. Luke
Vice President and Manager
Parker Place Branch, Richmond

Robert S. Ramshaw
Vice President and Manager
Douglas and Hillside Branch, Victoria

Tracy Redies
Vice President, Personal Financial Services
Vancouver Main Branch

Gregory J. Sprung
Vice President, Commercial Banking
Vancouver Main Branch

Gerard C.W. Yeu
Vice President and Manager
Fortuna House Branch, Richmond

WESTERN REGION

Kenneth C. Matheson
Senior Vice President, Western Region
Calgary

Earl V. Andrusiak
Vice President and Manager
Jasper Avenue Branch, Edmonton

Timothy G. Lawler
Vice President and Manager
8th Avenue Branch, Calgary

ONTARIO REGION

W. Geoffrey Hoy
Senior Vice President and Manager
Toronto Main Branch

Nicholas A. Nicolaou
Senior Vice President, Ontario Region
Toronto Executive Offices

A. Michael Papadatos
Senior Vice President, Ontario Region
Toronto Executive Offices

Peter A. McArthur
Vice President and Manager
Ottawa Branch

David K.H. Poon
Vice President and Manager
Willowdale Branch, Toronto

Joyce P. Young
Vice President and Manager
Milliken Square Branch, Scarborough

QUEBEC AND ATLANTIC REGION

Martin Dufresne
Senior Vice President, Quebec and Atlantic Region
Montreal

Luc Laliberté
Vice President and Manager
2000 Mansfield Branch, Montreal

PRINCIPAL OPERATING SUBSIDIARIES

Guy Cloutier
President and Chief Executive Officer
Canadian Direct Insurance Incorporated

Brian J. Young
Chief Operating Officer
Canadian Direct Insurance Incorporated

Stephen J. Wilson
President
Hongkong Bank Securities Inc.

James K. Midgley
Chief Operating Officer and Chief Financial Officer
Hongkong Bank Securities Inc.

John R.J. Blackmer
Vice President, Private Client Services
Hongkong Bank Trust Company

James M. Morrow*
Vice President, Mortgage Banking Division
Hongkong Bank Trust Company

Stephen Baker
Deputy Chief Executive Officer
HSBC Asset Management Canada Ltd.

Robert N. DeHart
Chief Investment Officer
HSBC Asset Management Canada Ltd.

David F. Mullen
Chief Executive Officer
HSBC Capital Canada Inc.

Peter J. Hickman*
President and Chief Executive Officer
HSBC InvestDirect Canada Inc.

Susan Bell
Chief Operating Officer
HSBC InvestDirect Canada Inc.

Richard W. Nesbitt*
Co-Chief Executive Officer
HSBC Securities (HSBC James Capel Canada Inc.)

Ken Davidson*
Co-Chief Executive Officer
HSBC Securities (HSBC James Capel Canada Inc.)

* *Toronto*
** *Hong Kong Special Administrative Region*

Board of Directors

Jacqueline L. Boutet, C.M.
Appointed Director December 10, 1991. President, Jacqueline L. Boutet Inc.

I. Malcolm Burnett
Appointed Director January 1, 1998. President and Chief Executive Officer, Marine Midland Bank and Chief Executive Officer, HSBC Americas, Inc.

James H. Cleave
Appointed Director June 18, 1987. Chairman of the Board of Directors. Formerly President and Chief Executive Officer, Marine Midland Bank and Chief Executive Officer, HSBC Americas, Inc.

Peter Y.L. Eng
Appointed Director December 19, 1995. Chairman, Allied Holdings Group.

William A. Farlinger, C.M.
Appointed Director February 1, 1994. Resigned June 3, 1998. Chairman, Ontario Hydro.

Tak Ching Ho
Appointed Director September 30, 1993. Formerly Vice Chairman and Chief Executive Officer, Hang Seng Bank Limited.

Donald C. Lowe
Appointed Director May 23, 1997. Chairman, Sedgwick Limited.

Robert W. Martin
Appointed Director May 23, 1997. Chairman, Silcorp Ltd.

Gwyn Morgan
Appointed Director December 12, 1996. President and Chief Executive Officer, Alberta Energy Company Ltd.

Youssef A. Nasr
Appointed Director December 9, 1997. President and Chief Executive Officer, Hongkong Bank of Canada.

M. Eugene Nesmith
Appointed Director August 14, 1981. Retired January 29, 1999. Formerly President and Chief Executive Officer, and Vice Chairman, Hongkong Bank of Canada. Founding President.

Peter Walton
Appointed Director January 19, 1987. President and Director, Walton Management Inc.

Keith R. Whitson
Appointed Director January 1, 1998. Group Chief Executive, HSBC Holdings plc.

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